

Message Text

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ACTION EUR-12

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LIMITED OFFICIAL USE SECTION 1 OF 2 GENOA 0395
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TAGS: ETRD, EIND, IT
SUBJECT: ITALSIDER TO RECEIVE A NEW INFUSION OF CAPITAL

REF: 77 GENOA 0571

SUMMARY: IN HIS SPEECH TO A SPECIAL SHAREHOLDERS MEETING ON JUNE 27 AND IN A FOLLOW-UP PRESS CONFERENCE, ITALSIDER PRESIDENT ING. AMBROGIO PURI OUTLINED A STRATEGY FOR OVERCOMING THE PROBLEMS BESETTING ITALY'S LARGEST, STATE-OWNED STEEL COMPANY. ITALSIDER'S SHAREHOLDERS APPROVED THE ISSUANCE OF A LIRE 589.5 BILLION (\$685 MILLION) BOND OFFERING , THE SECOND SINCE OCTOBER 1977, TO INCREASE THE FIRM'S OPERATING CAPITAL TO LIRE 1,179 BILLION (\$1.37 BILLION). PURI ALSO ANNOUNCED A MODERNIZATION AND EXPANSION PLAN TO IMPROVE ITALSIDER'S EFFICIENCY AND PRODUCTIVITY AND A MORE VIGOROUS SALES EFFORT ON THE COMPANY'S PART IN THE DOMESTIC MARKET TO DISCOURAGE STEEL IMPORTS. ON THE QUESTION OF IMPORTS, PURI NOTED THAT THE DAVIGNON PLAN WAS PROVING INEFFECTIVE IN RESTRICTING THE

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INFLOW OF STEEL PRODUCTS INTO ITALY AND CRITICIZED THE FRENCH FOR DUMPING HOT,ROLLED COILS. END SUMMARY

1. A NEW FINANCIAL PLAN - A MAJOR STEP IN PURI'S GAME PLAN FOR BRINGING ITALSIDER'S FINANCES BACK INTO EQUILIBRIUM WAS GAINING STOCKHOLDERS' APPROVAL FOR THE ISSUANCE OF NEW SERIES OF LIRE 1,000 (\$1.20) , FIVE YEAR BONDS THAT WILL DOUBLE THE

FIRM'S WORKING CAPITAL FROM LIRE 589.5 BILLION (\$685 MILLION) TO LIRE 1179 BILLION (\$1.37 BILLION). AS IN THE PREVIOUS BOND OFFERING OF OCTOBER 1977, THESE BONDS ARE TO BE GUARANTEED BY FINSIDER, THE STEEL HOLDING COMPANY OF IRI. THE COMPANY ANTICIPATES HAVING TO RAISE AN EQUAL AMOUNT THROUGH A THIRD BOND OFFERING WITHIN THE NEXT 12 MONTHS.

2. THIS NEW INFUSION OF CAPITAL IS BEING USED PRIMARILY TO REDUCE ITALSIDER'S SHORT TERM CREDIT LIABILITIES. IN 1977, DEBT SERVICING RAN TO APPROXIMATELY 20 PERCENT OF THE COMPANY'S SALES OF \$2.6 BILLION WITH REPAYMENT OF SHORT TERM CREDIT RESPONSIBLE FOR 65 PERCENT OF THE INTEREST CHARGES.

3. ING. PURI IS ALSO ALARMED THAT ITALSIDER'S EQUITY IN ITS TOTAL NET INVESTMENT OF LIRE 4,472 BILLION (\$5.2 BILLION) HAS SLIPPED TO A MERE 16 PERCENT. THE COMPANY'S EQUITY IN THE LIRE 3,278.7 BILLION (\$3.8 BILLION) INVESTED IN PLANT FACILITIES IS ONLY 22 PERCENT WITH THE REMAINDER MORTGAGED UNDER LONG AND MEDIUM TERM LOANS (65 PERCENT) AND SHORT TERM CREDITS (13 PERCENT).

4. IF ING. PURI'S FINANCIAL PLAN IS SUCCESSFUL IN RESTRUCTURING ITALSIDER'S DEBTS, THE COMPANY PLANS TO MEET ITS OBLIGATIONS FROM CURRENT EARNINGS AND USE MEDIUM AND LONG TERM, CONCESSIONAL CREDITS FROM THE EEC AND THE GOI LENDING AGENCIES TO FINACNE NEW INVESTMENTS. SINCE ITALSIDER REPORTED ONLY A TOKEN IMPROVEMENT LIMITED OFFICIAL USE

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IN ITS SALES PERFORMANCE FOR THE FIRST SIX MONTHS OF 1978 , I.E. PLUS 4.5 PERCENT ON SALES OF LIRE 1.3 BILLION (\$1.5 BILLION), THE COMPANY FACES AN UPHILL BATTLE IN REVERSING ITS POOR FINANCIAL POSITION.

5. IMPORTS AND DAVIGNON PLAN -ING. PURI NOTED THAT THE DAVIGNON MINIMUM PRICING PLAN HAS BEEN UNSUCCESSFUL IN CONTROLLING THE INFLOW OF STEEL PRODUCTS INTO ITALY. HE CONFIRMED THAT THROUGH THE END OF MAY ITALIAN IMPORTS OF STEEL PRODUCTS WERE RUNNING ABOVE 1977 LEVELS. IN SOME SPECIALIZED CATEGORIES, IMPORTS NOW SUPPLY FIFTY PERCENT OF THE ITALIAN MARKET , WITH FRANCE LARGELY TO BLAME FOR THE NEW INFLOW. A CHIEF CULPRIT IS THE FOS STEEL COMPLEX NEAR MARSEILLE THAT ITALSIDER CLAIMS IS MARKETING APPROXIMATELY HALF OF ITS PRODUCTION OF HOT, ROLLED COILS INTO NORTHERN ITALY.

6. PURI CONTENDED THAT THE LAXITY OF ITALIAN CUSTOMS IN MONITORING STEEL IMPORTS AND THE CREDIT POLICIES OF THE BANK OF ITALY COMPOUND ITALSIDER'S PROBLEMS. HE CLAIMED THAT THE REVERSAL OF THE ORDER RESTRICTING THE ENTRY PORTS FOR STEEL IMPORTS HAVE VIRTUALLY REMOVED ALL CENTRAL CONTROL FOR MONITORING

INCOMING SHIPMENTS. SIMILARLY, THE ITALSIDER CHIEF BELIEVES THAT THE BANK OF ITALY ENCOURAGES IMPORTS OF STEEL PRODUCTS BY MAKING FOREIGN EXCHANGE LOANS WHILE LIMITING DOMESTIC BORROWING.

7. AT HIS PRESS CONFERENCE, PURI HAILED THE MEASURES ADOPTED BY THE EEC MINISTERS AT LUXEMBORGH ON JUNE 27 TO DISCOURAGE UNFAIR COMPETITION AS A POSITIVE DEVELOPMENT THAT BRIGHTENS THE COMPANY'S PROSPECTS FOR THE REMAINDER OF 1978. COMMENT: THE WEAK ITALIAN DEMAND FOR STEEL PRODUCTS AND ITALSIDER'S ERODING SHARE IN THIS MARKET IS A SERIOUS PROBLEM FOR THE COMPANY. ACCORDING TO RECENTLY-RELEASED STATISTICS, ITALSIDER'S OUTPUT SHOWED A MODEST GAIN DURING THE FIRST HALF OF 1978 OVER THE FIRST SIX MONTHS OF 1977. THE COMPANY PRODUCED 5.3 MILLION LIMITED OFFICIAL USE

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TONS OF STEEL (UP 4.5 PERCENT) WHILE HOT ROLL OUTPUT DECLINED TO 4.1 MILLION TONS (DOWN 6 PERCENT). SHIPMENTS DECLINED TO 3.7 MILLION TONS (DOWN 1.5 PERCENT). SALES TO THE DOMESTIC MARKET DROPPED 7U PERCENT WHILE EXPORTS CLIMBED 15 PERCENT. EXPORTS ACCOUNTED FOR 41 PERCENT OF THE COMPANY'S TOTAL SALES FOR THE FIRST SIX MONTHS OF 1978. END COMMENT

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8. INVESTMENT PLAN- DESPITE THE DEPRESSED MARKET CONDITIONS FOR STEEL, ITALSIDER IS UNDERTAKING A COSTLY INVESTMENT PLAN TO IMPROVE BOTH EFFICIENCY AND PRODUCTIVITY WHILE NOT INCREASING CAPACITY. THE THRUST OF THE NEW INVESTMENTS, ACCORDING TO PURI, IS TO MODERNIZE THE LAMINATION, REWORKING, AND FINISHING PROCESSES AT ITS MAJOR STEEL PRODUCING CENTERS. THIS INVESTMENT PROGRAM INCLUDES THE FOLLOWING PROJECTS:

TARANTO- INSTALLATION OF A NEW, ANNEALING LINE FOR COLD, ROLLED FLAT PRODUCTS; A NEW HEAT TREATMENT PLANT FOR PLATES; MODIFICATION OF ONE PIPE MILL FOR PRODUCTION OF TUBING FOR HIGH PRESSURE MARINE PIPELINES.

CORNIGLIANO (GENOA) - CONTINUATION OF REPLACEMENT OF MARTIN-SIEMENS FURNACE WITH OBM CONVERTER PROCESS EQUIPMENT; CONSTRUCTION OF CONTINUOUS CASTING PLANT; INSTALLATION OF NEW COLD ROLLING MILL FOR HIGH QUALITY SHEETS; MODERNIZATION OF HOT, ROLLING MILL TO PRODUCE COILS OF REDUCED TOLERANCES FOR LIMITED OFFICIAL USE

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THICKNESS AND WIDTH.

BAGNOLI (NAPLES)- TOTAL RESTRUCTION OF ROLLING AREA BY CONSTRUCTING TWO, ADDITIONAL CONTINUOUS CASTING LINES; CONSTRUCTION OF A SEMI-CONTINUOUS ROLLING MILL PRODUCING 56 INCH HOT ROLLED COILS AND THE IMPROVEMENT OF THE WIDE-BEAMED FLANGED BEAMS SECTION; THE CLOSURE OF THE UNECONOMICAL ROD LINE.

9. ITALSIDER'S PLANS DO NOT INCLUDE CONSTRUCTION OF THE NEW STEEL COMPLEX AT GIOIA TAURO.

10. COMMERCIALIZATION PROGRAM- ANOTHER FEATURE OF ING. 07480748'S IMPROVEMENT PLAN IS FOR ITALSIDER TO PLAY A MORE ACTIVE ROLE IN MARKETING ITS PRODUCTS IN ITALY. THE PLAN CALLS FOR ITALSIDER TO JOIN FORCES WITH ITS DOMESTIC SALES AGENCY, SIDERCOMIT, IN PROMOTING SALES AND IN OPENING A NUMBER OF "SERVICE CENTERS" TO MEET CUSTOMER NEEDS. PURI HOPES THAT THESE MEASURES WILL REDUCE THE "MIDDLE MAN" ROLE IN MARKETING THE FIRM'S PRODUCTS AND MAKE ITS PRICES MORE ATTRACTIVE VIS-A-VIS IMPORTS.

COMMENT: MUCH OF ING. PURI'S STRATEGY DEPENDS ON THE GOI'S WILLINGNESS TO RESTRICT IMPORTS AND ITS ABILITY TO GUARANTEE UNLIMITED AMOUNTS OF CREDIT TO KEEP ITALSIDER AFLOAT. KEEPING COSTS DOWN IS ALSO A MAJOR INGREDIENT IN THE PLAN.

WITH OVER 53,000 EMPLOYEES ON ITS PAYROLL, ITALSIDER IS
OBVIOUSLY WORRIED THAT MILITANT ATTITUDE BY THE METAL WORKERS
(FLM) DURING THIS FALL'S CONTRACT NEGOTIATIONS COULD THREATEN
PRODUCTION AND DRIVE COSTS UPWARD. THE COMPANY'S TOP MANAGEMENT
TOOK SPECIAL CARE AT THE PRESS CONFERENCE TO REMIND THE UNIONS
OF THEIR UNDERSTANDING OF LAST APRIL IN WHICH LABOR AGREED
TO SHARE RESPONSIBILITY WITH MANAGEMENT IN INCREASING
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PRODUCTIVITY AND KEEPING THE LID ON INFLATIONARY WAGE HIKES.
COMPANY SPOKESMEN WARNED THAT ANY REDUCTION IN WORKING HOURS
AND WAGES HIKES UNTIED TO PRODUCTIVITY GAINS WOULD RAISE COSTS,
SERIOUSLY EFFECT THE COMPETITIVENESS OF THE COMPANY'S PRODUCTS,
AND BE A SERIOUS SETBACK TO MANAGEMENT'S PLAN TO RETURN
ITALSIDER TO SOLVENCY. IN A RECENT CONVERSATION WITH THE
CONSUL GENERAL, PURI INDICATED HAT HE WAS OPTIMISTIC THAT
LABOR WOULD TOE THE LINE AND HONOR ITS COMMITMENT WITH
ITALSIDER.DISCIULLO

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